If It's a Recovery, Where Are the Jobs?

Howard F. Rosen explains how the recession has exposed and exacerbated long-term structural trends hampering employment growth in the United States.

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Steve Weisman: With Labor Day approaching, the United States is experiencing a jobless recovery, if you could call it a recovery. This is Steve Weisman at the Peterson Institute for International Economics with Howard Rosen, a specialist on labor issues at the Peterson Institute, to talk about why we aren't recovering and why the jobs aren't coming back. Thanks, Howard.

Howard Rosen: You know, we have this strange coincidence with Labor Day this year because the weekend falls after the report of the monthly employment numbers for the month of August. There won't be a celebration of Labor Day this year. There'll be a lot of questions about why is unemployment continuing to rise, or not falling as it should, given the fact that we believe that the recession ended sometime last summer.

There really is nothing new. What we're experiencing right now is somewhat what we experienced after the last two recessions. And it's probably more telling to see it as a pattern than to look at it as just, "Why aren't we doing well right now?"

Steve Weisman: You mean the dot-com bust and the previous one in the early 1990s.

Howard Rosen: In the 1990s, people don't remember now that—

Steve Weisman: But really going back to the early 1980s, too.

Howard Rosen: Well the early 1980s was a very significant recession, although employment did kind of bounce back soon after, but it was a very deep recession. But it was when we got to the 1991–92 recession and the 2001 dot-com recession that we started seeing what we call structural changes taking place in the economy that had a stronger effect on the labor market than the regular cyclical effects. They were exacerbating the cyclical effects and therefore making it much longer for the economy, for the labor market to recover.

You might remember back in 1994–95 we were talking about a jobless recovery. That was two or three years after that recession. In some sense, not that this is a good situation right now, we're pretty much in the thick of the jobless recovery. Sometimes, the administration will say, "We don't expect the unemployment rate to fall considerably till sometime next year."

Steve Weisman: What are some of these structural changes?

Howard Rosen: These are things that we know about but don't associate with the current situation, which is that the intensification of both domestic and international competition over the last 20 to 30 years has put pressure on the labor market.

This doesn't necessarily have to be a one-way street. Everyone sees international trade or the flood of imports as creating dislocations here in the United States. But what we could do, what we could have done, is responded by shifting the way the economy was structured, shifting out of consumption into investment, moving into new industries. We didn't do that.

We felt these dislocations and they continued and they festered there. It's at times like these that the fact that we haven't moved into new industries and new areas comes back to haunt us. The first part is really the intensification of international competition, domestic competition, and technological changes. Even though we're still at the cutting edge of some technologies, we really are beginning to lose our advantage on this area. Other countries are moving in at the frontline of those kinds of things.

Steve Weisman: You mean in developing new technologies that could produce jobs.

Howard Rosen: Yes, produce jobs and commercial applications. That's right. Although we still spend a lot of research and development as a share of GDP in the United States, other countries are catching up. The gap between the United States and others is closing. It is not that others are doing better than us. It's that the advantage that we've had over the last whatever century is closing, and that causes additional competition. The problem is that not only are we not doing more than we used to do, which we need to do because of the competition, but we haven't made the kind of adjustments and investments here in the United States in order to respond to that increasing competition. So we're still acting as if it's 1940, but the rest of the world is acting as if it's 2010.

Steve Weisman: In theory, we want other countries to prosper and uplift their people, so we can sell them things.

Howard Rosen: Exactly.

Steve Weisman: Is that happening?

Howard Rosen: Not really, for two reasons. One is because we haven't expanded our production and our investments in the United States, we haven't taken advantage of these growing export markets. We do sell some but not as much as we really should given the growth in their markets. We're really not taking our share of the growths in those markets.

Number two is a phenomenon that we're just beginning to understand. And I think this is really critical. In general, large US companies tend to service export markets by production abroad. In some countries, let's say in Japan, if they're selling cars, we'll produce the cars in Japan and export them. Now, of course, that's changed too.

Japan used to make some of their cars in the United States. But the United States, instead of exporting cars to the rest of the world, produces cars in Europe and sells them there. We produce cars in Mexico. We produce cars in Canada. This goes back to the old story of the three important things on economics are location, location, location. Where's that location of the production? Where's the location of the revenue of the profits? Where is the location of the employment? What's happening is US companies are getting profits—profits now are very high. In fact if you looked at the recent report just last week, some profits in US companies have basically doubled over the last year. So US companies are flush with cash right now. But about a third of that increase in profits is coming from their sales overseas. So US companies are taking advantage of the growing export markets, or the growing markets overseas, but the United States isn't.

Steve Weisman: Are there any policies that the government could adopt in the next two years that would encourage companies to invest in production domestically?

Howard Rosen: The business community has been screaming, they believe that it's because of tax rates in the United States that are so high. United States corporate tax rates are one of the highest in the world. US companies are forced to operate overseas so that they're not losing all of their revenue to US taxes. And so they are weighing in on the administration to reduce corporate taxes and profit taxes, capital gains taxes.

The euphemism for that is comprehensive tax reform. The administration is saying that US companies are moving jobs overseas and so they want to close the advantage the US companies are getting by moving their operations overseas.

Steve Weisman: By somehow taxing those overseas operations.

Howard Rosen: Exactly. By taxing those overseas operations. What they want to do is tax the profits when the US companies bring them home. It's not as simple as just saying we've got a lot of outsourcing going on. We have US companies gaining most of their profits from their overseas production. They're creating jobs overseas and not creating them here. The administration wants to do something that could exacerbate it, and the business community is saying if you don't change the tax rates we're going to do more of it.

Steve Weisman: What about education levels? Are Americans equipped to produce more? And what about the wage structure in the United States, does it need to be more flexible?

Howard Rosen: That's exactly the question. What are we doing at home to offset that balance of taxes or the cost of shipping to export markets? We need to have these investments here in the United States. I would argue that it's not just a question of price. It's not just a question of wages or the cost of utilities or these kinds of things. It's an issue of price and quality.

The reason why I think labor costs get attention in the United States is because it's not clear that, as you suggest, that we have the educated workforce that these companies need. And if we did, then I think companies would be willing to pay more for these workers.

You get increased productivity during a recession because the firms are laying off. But now that the recession has ended, we are starting to see productivity levels go down again. So if your workers are not that efficient, you're not going to be willing to pay them that much, and that's what we've got to do.

We've got to get back into investing in both physical capital but also human capital on education. Hopefully that would raise productivity and then US companies should be willing to invest and shift more of their production back here.

Now, this sounds like a great story and you say, oh, that's wonderful. But it did happen 20 years ago. This is the story of the 1990s. We did have a jobless recovery [then] but once we got out of that recovery investment went up by about 30 percent just during that decade. Productivity growth doubled during that decade, and the United States experienced a halt in the decline in real wages, and wages started rising.

Over the subsequent 10 years, things have gone back to where they were before. We need to get back to that model of investing in physical and human capital, and raising productivity, which will in turn raise wages and living standards.

Another aspect of all of this is the exchange rate. That is important because it is through that exchange rate mechanism that we translate these structural differences between countries.

Steve Weisman: Currency exchange.

Howard Rosen: Currency exchange rates. The question from this standpoint is: Does the exchange rate reflect the underlying structure of our economy, the fact that we have a more higher-skilled, educated workforce, and those countries in Asia or others do not? And it's not clear that our exchange rate really does reflect those differences and structures. Again, that's another reason that is an incentive for US companies to shift their operations, to shift their profit centers overseas.

Just to make this differentiation, because it's really important: The trade deficit for the United States is much worse than it is for US companies. Because US companies are selling to overseas markets.

Steve Weisman: Major companies… But not as you pointed out so often, the small and medium companies.

Howard Rosen: Not the small and medium. And also the location of the production employment is not happening here in the United States. Now, if we had a global workforce where people were just moving all around the world, that would be fine, but we have national boundaries.

Steve Weisman: Sure.

Howard Rosen: We have elections every two and four years and so these are important considerations. Let me just emphasize this one thing. I believe that this phenomenon of companies shifting more of their operations overseas to service foreign markets is something that US companies tend to do more so than other companies in other countries.

Steve Weisman: Really?

Howard Rosen: Right. The example of Japan is a good one, where cars started shifting here. But in China, things that we're buying in China are produced in China and are being shipped here even though it's very far. It's just as far to send something from China to here as it is for us to send something from here to China, and yet we're servicing the Chinese market from overseas and China is servicing us from China.

Steve Weisman: Except for, of course, in the agriculture area.

Howard Rosen: We've done an analysis looking at, if you will, the comparative advantage of US exports, and it really is in agriculture because of all the technological advances. Not only have the technological advances brought down the prices, but they have really raised the quality and the quantity of our yield.

Steve Weisman: Our output.

Howard Rosen: Output per cost. And so we are really the most productive agricultural economy in the world. Now it's kind of odd to say that about an industrial country like the United States, but we are.

Steve Weisman: But we're still—in terms of jobs it's less than 5 percent of the workforce in agriculture.

Howard Rosen: Exactly. So we're not going to get ourselves out of this situation. Selling more agriculture overseas is a great thing and we will meet the growing demand for food and agriculture around the world and we have the potential to do that. But it's not going to get us out of our economic situation.

Steve Weisman: Howard, thanks very much for a very interesting review of, I guess, a somewhat discouraging picture on Labor Day.

Howard Rosen: Thank you.